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Effect of Inventory Management on Organizational Productivity of Manufacturing Companies in Rwanda; A Case of Urwibutso Enterprise

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Abstract

The general objective of this study was to assess the effect of inventory management on organizational productivity of Urwibutso Enterprise. Specifically the study assessed the effect of raw material inventory management on productivity of Urwibutso Enterprise, examine the effect of work in progress inventory management on productivity of Urwibutso Enterprise and assess effect of finished goods inventory management on productivity of Urwibutso Enterprise. This study based on Theory of Constraints (TOC), Resource-Based View (RBV) Theory, Just-In-Time (JIT) Theory and inventory Control Theory. The study was descriptive designed, correlative designed, qualitative designed, quantitative designed, and primary and secondary data-based designed. Target population was 136 populations who have direct works related to inventory management of Urwibutso Enterprise. The sample size determined by the help of Solvin formula. Researcher used cluster sampling to select 101 respondents into groups based on each employee department. To collect main data, Researcher used a questionnaire and predetermined interview questions, and to compile secondary data, Researcher did a paper search means documentary technique. The researcher used SPSS (Statistical Package for Social Scientists, version 20) findings to make sense of things like frequency, percentage, mean, and standard deviation. Bivariate Correlation analysis used for testing the validity of hypotheses. The value of R was 0.930, indicating a strong linear relationship. The R Square was 0.864, indicates that approximately 86.4% of the variability in the outcome variable (Productivity of Urwibutso Enterprise) can be explained by the predictors (Finished goods inventory management, Work in progress inventory management, and Raw material inventory management) in the model, and the adjusted R Square of 0.859 reinforces the goodness of fit. It was shown that Raw material inventory management ($p=0.000$ less than 0.05), Work in progress inventory management ($p=0.00$ less than 0.05), and Finished goods inventory management ($p=0.000$ less than 0.05) are statistically significant in Productivity of Urwibutso Enterprise. Urwibutso Enterprise's inventory management should include optimizing procurement processes, implementing Just-in-Time inventory for raw materials, streamlining production processes for work in progress inventory, adopting real-time monitoring, implementing demand forecasting and inventory

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segmentation for finished goods. These steps aim to enhance efficiency, reduce carrying costs, and maintain optimal inventory levels.

Keywords: *Inventory Management, Raw Material Inventory Management, Work in Progress Inventory Management, Finished Goods Inventory Management, Organizational Productivity*

1. Introduction

The opening statement discusses the challenge of determining the optimal stock levels to maintain efficient production and meet customer demands. Striking the right balance between having too much and not having enough inventory is a difficult task faced by many factories. It's emphasized that working capital is significantly affected by how well inventories are managed. This challenge can lead to overstocking, which has its advantages, but it can also lead to drawbacks associated with storing excess inventory (Odhiambo & Kihara, 2018).

Daniel *et al.* (2022), reveals a substantial problem in the private sector in Rwanda. A significant number of enterprises, approximately 50%, fail within their first five years of operation. Even among the surviving 50%, only a small fraction manages to endure beyond a decade. Business closures have been associated with unsettling behavioral shifts, potentially driving individuals towards unethical actions and even causing ruptures within their own families. This highlights the far-reaching social and psychological implications of business failures.

The study mentioned a lack of prior research efforts in Rwanda that specifically address how the management of different types of inventory (raw materials, work in progress, and finished goods) influences the overall productivity of organizations within the Rwandan context. Furthermore, the researcher noted that there has been no dedicated study conducted on Urwibutso Enterprise. Given these gaps in existing knowledge, the study aims to address these areas and contribute to a deeper understanding of the subject matter. The research seeks to investigate the relationship between inventory management and organizational productivity, particularly within the context of Rwandan enterprises.

1.2 Objectives of the Study

The general objective of this study was to assess the effect of inventory management on organizational productivity of Urwibutso Enterprise.

Specific objective of the study

- i. To assess the effect of raw material inventory management on productivity of Urwibutso Enterprise.
- ii. To examine the effect of work in progress inventory management on productivity of Urwibutso Enterprise.
- iii. To assess effect of finished goods inventory management on productivity of Urwibutso Enterprise.

1.3 Research hypotheses

The followings are the null hypotheses of the study formulated based on research objectives:

The followings are the null hypotheses of the study formulated based on research objectives:

Ho1: Raw material inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.

Ho2: Work in progress inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.

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Ho3: Finished goods inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.

2. Literature review

The literature review is an important part of this research because it helped to understand how much is already known about a topic and show where research could go next.

2.1 Theoretical literature

The literature review involves a thorough examination and examination of the existing notions and principles concerning the variables being investigated. It combines and integrates awareness from diverse sources, enhancing individuals' comprehension of a particular subject.

Inventory management

Buying, maintaining, using, and eventually getting rid of stock is all part of an organization's inventory management process. This also includes the warehousing and processing of raw materials, components, and finished commodities. There are several stock management strategies, each with its own benefits and drawbacks. The three largest challenges to efficient inventory management are having too much product and no buyers, not enough stock to fulfil customer expectations, and insufficient insight into inventory amounts and locations. By determining when and how much of each item to purchase, businesses may reap the benefits of improved inventory management. Products are followed from the point of purchase all the way through to the point of sale. The approach detects trends and makes necessary adjustments to ensure there is always enough supply to satisfy demand and warn of any shortages ahead of time (Orobia *et al.*, 2020).

Raw material inventory management

Managing raw material inventory is critical for understanding your product's manufacturing process, costs, and optimization options. It has various advantages, including less waste and reduced idle time. Overlooking raw material inventories might have serious ramifications for your company. The total cost of a manufacturer's components, subassemblies, and supplies that are on hand but not actively used in production is represented by the raw material inventory. Inventory assets are first recorded by making a debit entry to the raw materials inventory account and a credit entry to the accounts payable account (Jeanet & Patrick, 2018).

Work in progress inventory management

Work in process, refers to materials that have entered the manufacturing process but have not yet reached the final products stage. Once money is committed to producing a finished good, it is no longer considered raw material inventory and instead becomes an asset on the balance sheet. A company's work in progress (WIP) is an important indicator of the value of its products at various stages of production. Inventory goods that have progressed past the raw materials stage and are currently being developed or assembled into the final product are considered to be WIP (Anichebe & Agu, 2023).

Finished goods inventory management

The term finished goods inventory is used to describe the quantity of manufactured items that have been produced, are in stock, and can be sold to buyers. A seller's notion of finished goods may be another buyer's idea of a raw material; hence the concept of finished items can be relative. Despite this, it is essential to keep tabs on finished items for the sake of inventory management, and a formula can aid in establishing their market value (Nishan, 2022).

Organizational productivity

Organizational productivity involves maximizing the use of resources, such as time, money, materials, and manpower, to achieve optimal output. It focuses on accomplishing tasks with minimal waste or redundancy. Productivity within an organization is reflected in its capacity to successfully accomplish its predetermined goals and objectives. It demonstrates the organization's ability to execute its strategic plans effectively (Ijeoma *et al.*, 2020).

Organizational productivity is measured by the quantity and quality of outputs or outcomes produced by the organization. It signifies the ability to deliver goods or services that meet or exceed stakeholder expectations. Productivity is not solely about quantity; it also involves fostering an environment that encourages innovation and adapts to changes. A productive organization can swiftly respond to market dynamics and introduce creative solutions (Gabriel, 2021).

2.2 Theoretical framework

For this study, theoretical framework is a thorough look at and evaluation of the existing theories and ideas about the topic under study. It is the process of systematically analyzing and putting together information from different sources in order to get a full picture of issue.

Theory of Constraints (TOC)

Dr. Eliyahu M. Goldratt, an Israeli physicist and management expert, invented the Theory of Constraints (TOC). In 1984, Goldratt released *The Goal*, a famous corporate book in which he established the fundamental ideas of TOC. This novel introduced the Theory of Constraints to a broader audience by presenting its principles in a relatable and engaging narrative. TOC provides a systematic approach to analysing and resolving limitations that hinder an organization from reaching its full potential. TOC emphasizes the importance of identifying the most significant constraint within a system, also known as the weakest link, and then directing efforts to alleviate this constraint. This approach ensures that improvements are targeted where they can have the most significant impact on overall system performance. TOC is concerned with streamlining processes, reducing waste, and increasing throughput, ultimately leading to improved profitability and customer satisfaction (Nishan, 2022).

that may exist within the organization's supply chain or production processes.

The Theory of Constraints offers a framework to systematically analyse and improve inventory management practices, aligning with the study's goal of assessing the effect of inventory management on organizational productivity. By adopting TOC concepts, the study can provide actionable insights for decision-makers to optimize inventory processes, alleviate constraints, and ultimately enhance the organization's overall performance and competitiveness.

Resource-Based View (RBV) Theory

In the 1980s, professors Jay Barney and Birger Wernerfelt created the concept of the Resource-Based View (RBV). The groundwork for this significant theory was created by Barney's landmark 1986 book, *Strategic Factor Markets: Expectations, Luck, and Business Strategy*, and Wernerfelt's 1984 study, *A Resource-Based View of the Firm*. When conventional methods of strategic management proved inadequate due to their overemphasis on external market forces, RBV was developed as an alternative. Barney and Wernerfelt argued that a company's own resources and competencies were the key to establishing a long-term competitive edge (Ijeoma *et al.*, 2020).

In the context of this study examining the effect of inventory management on organizational productivity, RBV offers a valuable lens for analysis. RBV encourages researchers to identify and evaluate the specific resources and capabilities associated with effective inventory management practices. This could include advanced inventory tracking systems, efficient supply chain processes, skilled workforce, or proprietary technology. By scrutinizing these internal factors, the study can reveal how organizations harness these resources to enhance productivity and gain competitive advantage.

Just-In-Time (JIT) Theory

The Just-In-Time (JIT) theory, also known as Lean Manufacturing, originated in Japan and was pioneered by Taiichi Ohno, an engineer at Toyota. The foundational concepts of JIT were developed and implemented by Ohno and his team at Toyota in the 1950s and 1960s. JIT became widely recognized and adopted as a manufacturing philosophy in the subsequent decades. Just-In-Time (JIT) theory is centred on the efficient use of resources and minimizing waste throughout the production process. The main concerns of JIT are reducing inventory levels, eliminating non-value-added activities, optimizing process flow, and ensuring that resources are utilized precisely when and where they are needed. JIT aims to achieve a smooth and uninterrupted flow of materials, components, and information to support production and customer demand (Olaniyan *et al.*, 2020).

According to JIT theory, production should occur solely in reaction to confirmed consumer demand to cut down on costly stockpiling. This strategy calls for extensive communication and cooperation across departments, suppliers, and manufacturing stages. Just-In-Time (JIT) theory provides important insights and background for this investigation into the impact of inventory management on organizational productivity.

Inventory Control Theory

The field of inventory control theory has evolved over time with contributions from various scholars and practitioners. While there isn't a single founder, researchers like Ford W. Harris and R. H. Wilson made significant contributions in the early 20th century. In 1915, Harris created the Economic Order Quantity (EOQ) model, which served as the basis for contemporary approaches to inventory management. In 1934, Wilson built upon Harris's research by developing the idea of reorder points. The goal of inventory management theory is to minimize overhead while yet keeping inventory levels high enough to fulfil consumer demand. How often and how much to reorder, as well as other aspects of inventory management, are all addressed by the theory (Singh and Kumar, 2020).

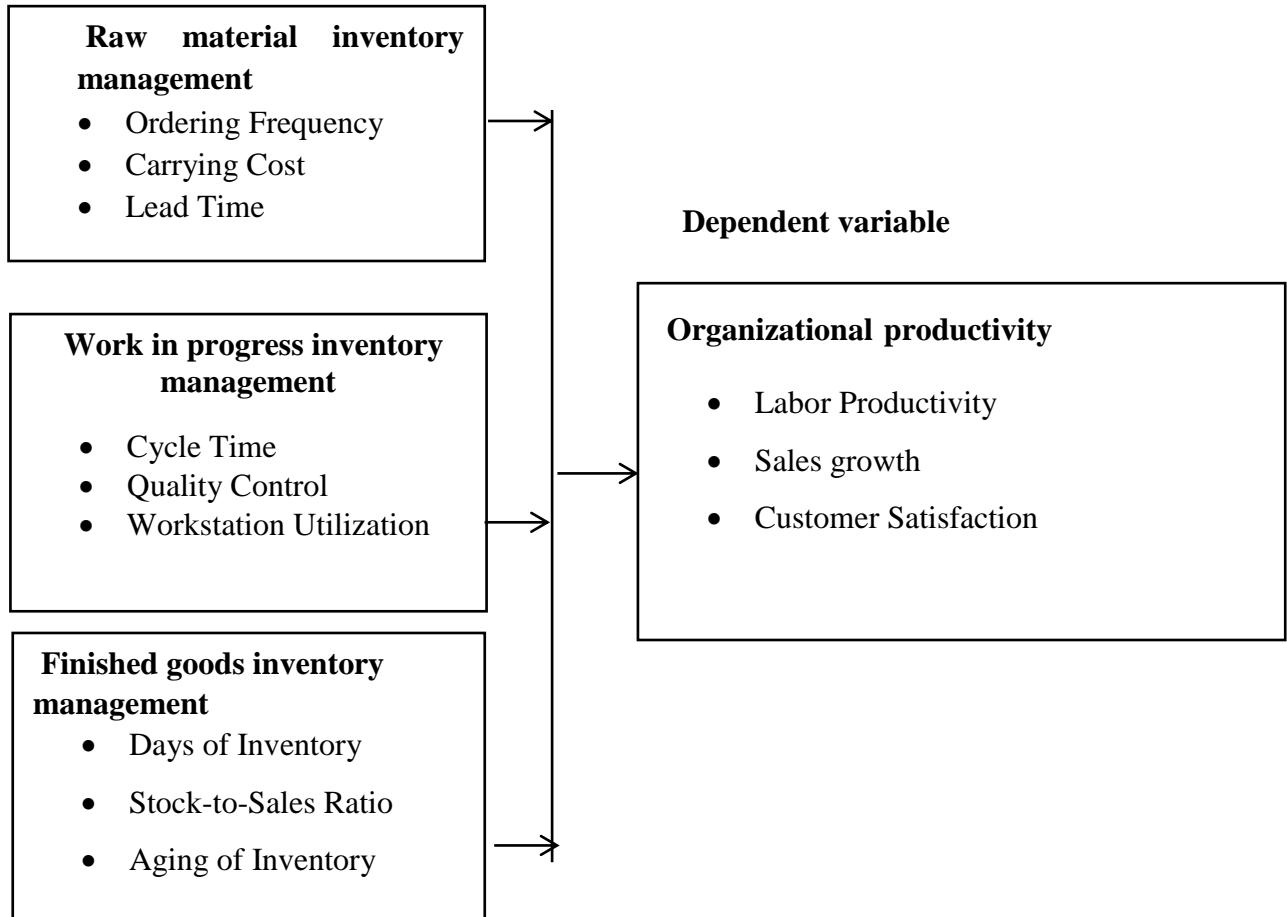
Researcher explored how accurate demand forecasting and lead time management, key components of inventory control theory, contribute to meeting customer demand and minimizing stockouts. The study can evaluate the relationship between effective inventory control practices and improved customer satisfaction, which in turn can enhance organizational performance.

2.3 Conceptual framework

A conceptual framework serves as a directional guide for the research hypotheses. It provides a structured layout for the research objectives, and hypotheses, outlining the variables, interrelationships, and underlying expectations that pilot the research journey much like a detailed roadmap.

Figure 1: Conceptual framework
Independent variable

Inventory management



Source: Researcher (2023)

The conceptual framework, the focus is on Inventory Management, which is divided into three categories: Management of raw materials, inventory of work in progress, and inventory of completed items. Each category encompasses key factors that play a critical role in efficient inventory control. For instance, in raw material inventory management, factors like Ordering Frequency, Carrying Cost, and Lead Time directly affect the availability of essential materials for production. Similarly, in WIP inventory management, Cycle Time, Quality Control, and Workstation Utilization influence the pace and quality of production processes. Finally, in finished goods inventory management, Days of Inventory, Stock-to-Sales Ratio, and Aging of Inventory indicate the efficiency of distributing products to customers. This linkage ensures a comprehensive exploration of inventory management's impact on overall organizational operations.

3. Research methodology

The researcher used descriptive and correlation analysis to explore relationships between different variables as outlined in the conceptual framework. This mixed-methods approach allows for a more comprehensive and in-depth understanding of the research topic by combining the strengths of both qualitative and quantitative research methods.

Target population

A study population is a specific group of people drawn from a broader population that is assumed to be representative of the whole. The term "population" is used to describe the whole sample size of a study. That which is to be investigated; a collection of people or objects (Eugenie, 2022). Target population was 136 populations who have direct works related to inventory management of Urwibutso Enterprise.

Sampling design

Sampling designs are used in research to obtain representative samples from larger populations for statistical study. The sample size determined by the help of Solvin formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size which are 136, and e is the marginal of error (5%).

$$n = \frac{136}{1 + 136(0.05)^2} = \frac{136}{1 + 0.34} = \frac{136}{1.34} = 101$$

Data analysis

According to Komaran (2016), a researcher's methodology consists of the agreed-upon procedures, rules, and intellectual operations used to analyse and assess data. Because of this, the research used many methods of data analysis. The researcher used the following techniques. The data was analyzed using a linear regression model, a bivariate correlation analysis, and a set of descriptive statistics. Using SPSS (Statistical Package for Social Scientists, version 20) to analyze central tendency measures (frequency, percentage, mean, and standard deviation), this article presents the study's findings.

To examine the hypothesized relationship between the two variables, a bivariate correlation analysis was conducted. This approach represents one of the most straightforward forms of statistical analysis and is used to determine if a connection exists between two sets of values typically represented as variables X and Y.

Linear regression model evaluated to all indicators as stated in the conceptual framework.

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where: Y= Organizational Productivity,

b₀= Constant;

X₁= Raw material inventory management

X₂= Work in progress inventory management

X₃= Finished goods inventory management

4. Research findings

This chapter was dedicated to the presentation of research findings and the execution of data analysis. To accomplish the research goals, a combination of descriptive analysis, including percentages, means, and standard deviations, and inferential analysis, involving regression and correlation, were employed. The Statistical Package for Social Sciences (SPSS) was utilized to facilitate these analytical procedures.

For this study, inferential statistics play a crucial role in the study of hypothesis testing by enabling researchers to draw conclusions on a sample of data. Hypotheses testing were a fundamental process in this research that involves making decisions about factors using sample data.

Table 1: Correlations between Raw material, Work in progress, Finished goods inventory management and Organizational Productivity

		Raw material inventory management	Work in progress inventory management	Finished goods inventory management	Organizational Productivity
Raw material inventory management	Pearson Correlation	1	.701**	.791**	.845**
	Sig. (2-tailed)		.000	.000	.000
	N		89	89	89
Work in progress inventory management	Pearson Correlation		1	.757**	.814**
	Sig. (2-tailed)			.000	.000
	N			89	89
Finished goods inventory management	Pearson Correlation			1	.882**
	Sig. (2-tailed)				.000
	N				89
Organizational Productivity	Pearson Correlation				1
	Sig. (2-tailed)				
	N				89

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field data, (2023)

Correlations among the investigated factors are shown in Table 1. According to the data, the Pearson correlation coefficient was 0.845, with $p=0.000$ less than 0.05, indicating a strong relationship. Clearly, the Productivity of Urwibutso Enterprise have a strong relationship with Raw material inventory management. The Pearson correlation coefficient between Work in progress inventory management and Productivity of Urwibutso Enterprise is 0.814, which is statistically significant at the 0.05 level ($p=0.000$) indicating a strong relationship between Work in progress inventory management and Productivity of Urwibutso Enterprise. The Pearson correlation coefficient was 0.882, and a significance level of $p = 0.05$ was found in the results, indicating a strong relationship. This means that how Urwibutso Enterprise handles its finished goods inventory management has a direct effect on how well the Productivity of Urwibutso Enterprise does.

The findings are consistent with Orobias *et al.* (2020) emphasis on the significance of inventory management in tracking products from purchase to sale, detecting trends, and making adjustments to ensure sufficient supply and anticipate shortages. This indicates the importance of effective inventory management practices in optimizing operations and meeting customer demand efficiently, aligning with the study's results highlighting the strong relationship between various inventory management aspects and the productivity of Urwibutso Enterprise.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.930 ^a	.864	.859	.24605

a. Predictors: (Constant), Finished goods inventory management, Work in progress inventory management, Raw material inventory management

Source: Field data, (2023)

The results in Table 2 indicate model summary on finished goods inventory management, Work in progress inventory management, Raw material inventory management and Productivity of Urwibutso Enterprise. The value of R was 0.930, indicating a strong linear relationship. The R Square was 0.864, indicates that approximately 86.4% of the variability in the outcome variable (Productivity of Urwibutso Enterprise) can be explained by the predictors (Finished goods inventory management, Work in progress inventory management, and Raw material inventory management) in the model., and the adjusted R Square of 0.859 reinforces the goodness of fit.

The findings are consistent with the emphasis of Singh and Kumar (2020) on the importance of inventory management. Singh and Kumar highlight that maintaining proper inventory levels is crucial to prevent shortages and ensure business success. This aligns with the study's results, which demonstrate that effective inventory management, as reflected in the model summary, significantly impacts the productivity of Urwibutso Enterprise, indicating the critical role of inventory management in organizational performance.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.714	3	10.905	180.126	.000 ^b
	Residual	5.146	85	.061		
	Total	37.860	88			

a. Dependent Variable: Organizational Productivity

b. Predictors: (Constant), Finished goods inventory management, Work in progress inventory management, Raw material inventory management

Source: Field data, (2023)

The results of an ANOVA examining the relationship between the independent variables (finished goods inventory management, work in progress inventory management, and raw material inventory management) and productivity at Urwibutso Enterprise are presented in

Table 3. The regression coefficient for these variables is statistically significant ($F = 180.905$, $p = 0.000$, which is less than 0.05). Consequently, the researcher accepts an alternative theory while rejecting the null hypothesis.

The findings align with Olaniyan *et al.* (2020) emphasis on the importance of effective inventory management. Olaniyan et al. highlight that inventory management involves crucial processes like tracking, auditing, and reordering, which play a significant role in ensuring an optimal balance between stock levels and customer demand. This supports the notion that inventory management is vital for reducing costs, preventing stock shortages, and contributing to overall business success.

Table 4.: Coefficients on Raw material, Work in progress, Finished goods inventory management and Organizational Productivity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.068	.152		.450	.654
1 Raw material inventory management	.326	.069	.321	4.740	.000
Work in progress inventory management	.259	.062	.266	4.197	.000
Finished goods inventory management	.421	.073	.427	5.788	.000

a. Dependent Variable: Organizational Productivity

Source: Field data, (2023)

Linear regression model evaluated to all indicators as stated in the conceptual framework.

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where: Y= Organizational Productivity,

b_0 = Constant;

X_1 = Raw material inventory management

X_2 = Work in progress inventory management

X_3 = Finished goods inventory management

Table 4 displays the regression equation, which shows that the Productivity of Urwibutso Enterprise is reliant on a constant factor of 0.068 independently of any other variables. Raw material inventory management contributes 0.326 units to the overall improvement in Urwibutso Enterprise Productivity, which is taken into consideration by the other components. When one more unit is given Work in progress inventory management, the Productivity of Urwibutso Enterprise goes up by 0.259. Finished goods inventory management goes up by one unit, Productivity of Urwibutso Enterprise will go up by 0.421 times.

It was shown that Raw material inventory management ($p=0.000$ less than 0.05), Work in progress inventory management ($p=0.000$ less than 0.05), and Finished goods inventory management ($p=0.000$ less than 0.05) are statistically significant in Productivity of Urwibutso Enterprise.

The findings are in line with Rashmi's (2021) emphasis on the significance of inventory management. Rashmi underscores that inventory management involves planning, control, and optimization of goods levels within an organization. These findings support Rashmi's view by demonstrating how various aspects of inventory management, including raw material, work in progress, and finished goods management, significantly influence the productivity of Urwibutso Enterprise. This emphasizes the crucial role of effective inventory management in organizational performance.

Table 5: Summary of hypotheses test

Hypothesis Formulated	Beta (β)	ρ – values	Decision
Ho1: Raw material inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.	.068	.000	Rejected
Ho2: Work in progress inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.	.326	.000	Rejected
Ho3: Finished goods inventory management has no statistically significant effect on productivity of Urwibutso Enterprise.	.259	.000	Rejected

Source: Field data (2023)

The results of the hypotheses testing in Table 5 provide significant overviews into the effect of inventory management on organizational productivity of Urwibutso Enterprise. Each null hypothesis (Ho1, Ho2 or Ho3) has been rejected ($p < 0.05$), indicating strong evidence against the idea that these inventory management practices have no significant effect on organizational productivity of Urwibutso Enterprise. Specifically, Raw material inventory management, work in progress inventory management, finished goods inventory management, all demonstrate a significant influence on the organizational productivity of Urwibutso Enterprise. These findings emphasize the critical role of comprehensive inventory management in achieving the organizational productivity of Urwibutso Enterprise.

5. Conclusion

To accomplish this, the study set three specific aims, which included: Analyzing the effect of raw material inventory management on Urwibutso Enterprise's productivity. The study has revealed that raw material inventory management at Urwibutso Enterprise is perceived as highly effective by respondents.

Investigating the effect of work in progress inventory management productivity of Urwibutso Enterprise. The findings indicate that work in progress inventory management practices are viewed favorably by respondents. It confirms the positive impact of work in progress inventory management on Urwibutso Enterprise's productivity.

Assessing the effect of finished goods inventory management on productivity of Urwibutso Enterprise. The study shows that finished goods inventory management practices at Urwibutso Enterprise are well-regarded by respondents. It affirms that finished goods inventory management plays a significant role in influencing the productivity of Urwibutso Enterprise.

The results revealed that Raw material inventory management, work in progress inventory management, and finished goods inventory management all have a significant influence on the organizational productivity of Urwibutso Enterprise. Consequently, each null hypothesis was rejected, providing substantial evidence against the notion that these inventory management practices have no meaningful effect on the organizational productivity of Urwibutso Enterprise.

6. Recommendations

Urwibutso Enterprise should consider optimizing its processes to ensure timely and cost-effective acquisition of raw materials. This may involve establishing relationships with reliable suppliers, negotiating favorable terms, and monitoring market trends to make informed procurement decisions.

Urwibutso Enterprise should focus on rearrangement its production processes to reduce work in progress inventory levels. This can be achieved by identifying bottlenecks, optimizing workflow, and implementing lean manufacturing principles to eliminate waste and enhance efficiency.

Urwibutso Enterprise should develop a strong demand forecasting system to accurately predict customer demand for finished goods. This will aid in maintaining optimal inventory levels and reducing the risk of overstocking or stockouts.

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